SYNOPSIS OF ECONOMIC EVENTS AND ASSUMPTIONS

Recent Economic History

The last five years have been tumultuous for the national and regional economies. In 1999 and 2000 the economy was expanding rapidly due to robust business and consumer confidence. Stock market averages were increasing rapidly, business and consumer spending was strong, interest rates were low, unemployment was low, and the economy was enjoying a historic period of expansion. However, in March of 2000 the stock market began to experience a series of declines that undermined business and consumer confidence. These declines in the stock market began to be felt in the real economy in 2001 and both the national and regional economies endured a mild recession in the second (April to June) and third (July to September) quarters of 2001. In the third quarter of 2001, the nation and economy suffered a major shock in the form of the terrorist strikes of September 11, 2001.

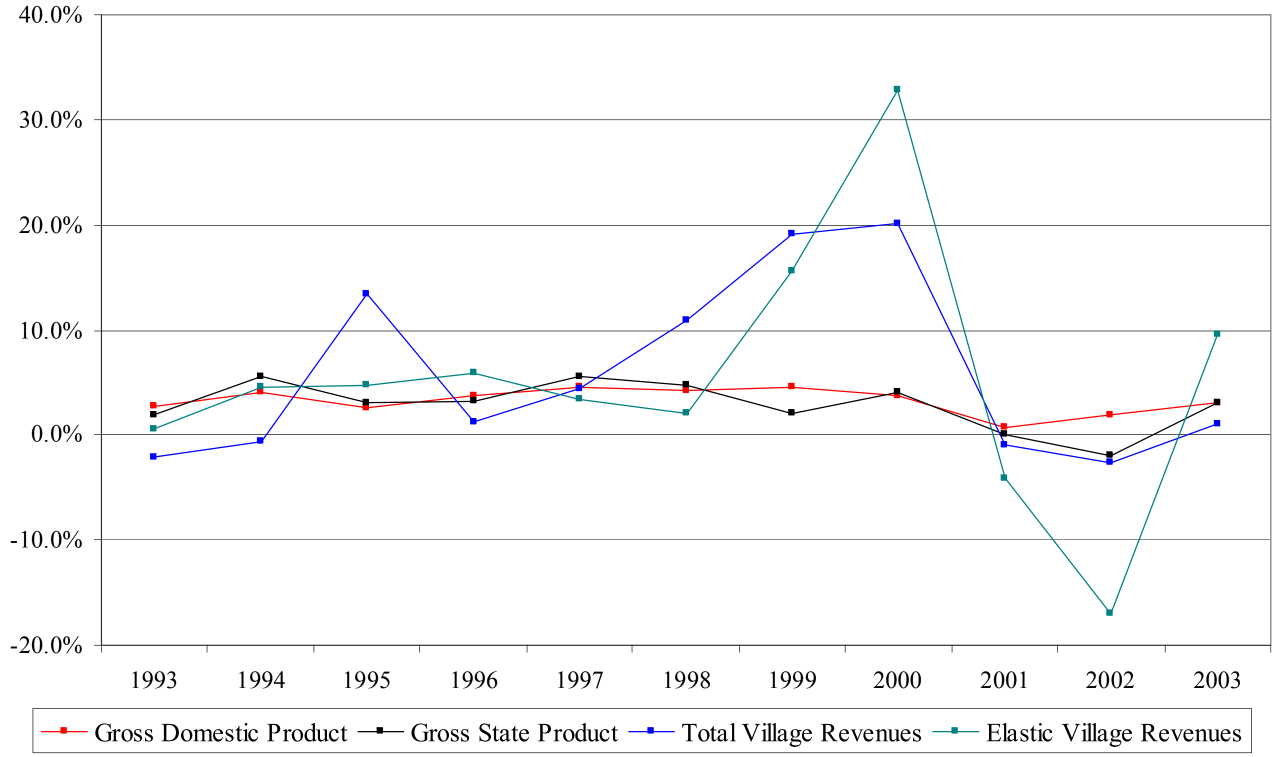
In the last quarter of 2001 the national economy began a slow recovery from the recession and shock of the second and third quarters of 2001. The Federal Reserve Bank had begun lowering interest rates early in 2001 and became more aggressive towards the end of the year. The Federal Government began increasing spending in response to the terrorist attacks while at the same time reducing taxes as a result of the Federal Tax Relief and Economic Reconciliation act of 2001. During 2002 the economy continued its slow recovery as geopolitical uncertainties, the continued decline of the stock market, and business scandals (including Enron and WorldCom) undermined business confidence thereby keeping business spending in check. In 2002, the two bright spots of the economy were consumer spending and the housing market. However, the geopolitical uncertainty regarding Iraq took an economic toll during the final three months of 2002 and the first four months of 2003.

Subsequent to the invasion of Iraq by American forces, the economy began to rebound strongly from the slow growth experienced since the recession of 2001. The national Gross Domestic Product (GDP) recorded the strongest growth in 20 years during the second quarter of 2003 and very strong growth continued in the third and fourth quarters of 2003. This recovery in the growth rate of the economy reignited the stock market and stock prices began to increase again in April of 2003. The strong economic growth and increasing stock prices began to strengthen the demand for goods and services and in the spring of 2004 the labor market began to recover from persistent underemployment; the recovery of the labor market is typically the final step in the recovery from an economic downturn. The strong economic growth is expected to continue through the end of 2004.

Effect of Recent Economic History on Village Revenues

The turbulent economy of the last five years has been reflected in the Village of Barrington revenue receipts. A significant portion of the Village's Revenues are elastic (*average of approximately 37% during the past five years*). This means they respond readily to changes in the national and regional economies. From 1997 through 2000 the Village experienced some of the most rapid growth in Sales Tax, Income Tax, and other elastic revenue sources in recent memory (*average increase of approximately 16.05% during the four year period*). Sales Tax alone grew 12.43% in 1998, 8.66% in 1999, and 9.97% in 2000. In 2001 however, as the national and regional economies experienced a mild recession, the elasticity of these revenue sources had a negative effect on Village revenue receipts as these revenues declined in response to the economic environment (*Please see graph comparing economic growth and Village revenue receipts on the following page for a graphical examination of economic indicators and the Village's elastic revenues during the past ten years*). In 2001 Sales Tax revenue declined 6.85%, Income Tax revenue declined 1.78%, and Local Use Tax declined 5.23%. In 2002 these declines in elastic revenue sources continued with Sales Tax decreasing a further 6.81%, Income Tax decreasing 7.87%, and Local Use Tax and Replacement Tax decreasing 19.87% and 38.46% respectively. In addition, Investment Income began declining as the Federal Reserve Bank aggressively lowered interest rates and the return on Village investments declined in response. This decline in Investment Income affected all of the Village's Funds including the enterprise funds (*i.e., Water and Sewer, Recycling and Refuse, and Motor Vehicle Parking*). In addition to lower interest rates, the declining stock market had a significant negative impact on the Village's pension funds.

Comparison of Economic Growth and Village Receipt of Revenues, 1993 - 2003



The only positive trend for the Village in 2001 and 2002 was the resiliency of the Village's inelastic revenue sources including Property Taxes and Charges for Services. In the General Fund, a gradual increase in the Village's inelastic revenue sources was not enough to offset the decreases in elastic revenues. However, the increases in inelastic revenues did help to moderate the effects of the decreases in elastic revenues and further demonstrated the importance of maintaining a balanced mix of revenue sources. In other Funds, especially the enterprise funds, the gradual increase in inelastic revenues (*i.e., Charges for Services*) did provide sufficient resources to offset operating costs despite the increases in these costs (*as discussed in the following section*).

In 2003, as the national and regional economies began rebounding from the negative economic environment of 2002, the Village's elastic revenues responded and increases from the prior year occurred in Sales Tax (3.85%), Replacement Tax (16.54%), and Interest Income (29.17%). However, Income Tax and Local Use Tax revenues continued declining. Inelastic revenue sources continued their positive trend, although Property Tax revenues in the General Fund were only slightly positive.

In 2004 the Village expects increases in elastic revenues as Income Tax and Local Use Tax recover somewhat from the declines of 2001, 2002, and 2003. Other elastic revenue sources such as Sales Tax, Replacement Tax, and Investment Income are expected to remain relatively stable or increase slightly. Inelastic revenue sources such as Property Taxes and Charges for Services will continue to steadily increase. Overall General Fund Revenues are expected to increase approximately 2.25% to an estimated total of $12,790,000, an increase of $280,000 over actual 2003 General Fund Revenues.

Expenditures and Actual Results in 2002, 2003, and 2004

While Village revenues were decreasing in response to the economic environment in 2001 and 2002, the demand for Village services actually increased. This demand for increased services along with higher operating and capital costs resulted in increased expenditures by the Village. Personnel cost increases were particularly severe as health insurance premium costs increased substantially (*20% for HMO insurance and 30% for PPO insurance in 2002*) and the decline in the stock market had a negative impact on pension funds, forcing the Village to increase its contributions to the pension funds to maintain adequate funding levels. In 2002, an increased demand for services and increases in personnel and construction costs resulted in the Village ending the fiscal year in the position of having spent more than it received in revenues in the General Fund. In addition, the Undesignated/Unreserved Fund Balance in the Capital Improvement Fund was significantly reduced as a result of the utilization of these funds for several special projects (*including the purchase of property that was subsequently developed into a park*). In the enterprise funds, total expenditures were also impacted by operating costs increases in such areas as health insurance premiums.

In 2003 the increase in operating and capital expenditures continued as health care premium, pension, and construction costs all continued to outpace the rate of general inflation. In addition, demand for increased services necessitated the hiring of additional personnel (*two part-time Maintenance Workers in Public Works to maintain the Village's Streetscape Improvements and two additional Crossing Guards*). The Village was able to offset these increased operating costs to some extent by consolidating positions as turnover occurred and reducing operating and capital expenditures (*i.e., Departments reduced staff training, reduced their contractual services and commodities spending, and deferred or reduced projects such as street light painting, street light globe replacement, the Street Maintenance Program, the Sidewalk Program, etc.*). As a result of these expenditure controls as well as the stabilization in the Village's elastic revenue sources (*as discussed in the preceding section*), by the end of Fiscal Year 2003 the General Fund was again in a positive position with revenues exceeding expenditures. In addition, the Capital Improvement Fund Undesignated/Unreserved Fund Balance increased substantially due to higher than expected Telecommunication and Utility Tax Revenues and the transfer, based on the positive year-end results in the General Fund, of $150,000 to the Capital Improvement Fund. The transfer was included in the original budgeted but was deferred as part of the Village's cost containment measures.

Economic Assumptions for 2005 and 2006

Assumptions for 2005 and 2006 include a stable, steady growth rate in the national and regional economies of approximately 3% to 4% in both 2005 and 2006. The Village expects consumer income to increase at a pace that equals or exceeds the overall rate of growth in the economy and this should help automobile sales which are a big part of the Village's Sales Tax Revenue receipts. Interest rates are expected to continue increasing at a slow, but steady pace to a Federal Funds Rate of approximately 3.0% by the end of 2005. In terms of consumer spending, the Village is anticipating increased spending on automobiles in 2005 and 2006 as consumers move to replace aging automobiles that were purchased during the stock market boom period of 1999 to 2001. The Village expects the overall rate of inflation to remain relatively stable; however, inflationary pressures for fringe benefits, energy, and construction will probably outpace the overall rate of inflation.

Development activity in the Village is expected to increase in 2005 as the construction of Cook Street Plaza and the renovation and rehabilitation of businesses in the downtown area continue. This activity should have a positive impact on the local economy and on the sales of goods and services within the Village. In addition, commercial activity, combined with the Village's location in an attractive, growing region of the Chicago suburbs, is expected to positively impact local property values in 2005 and 2006.

Impact of Economic Assumptions on Formulation of Revenue Estimates and Expenditure Budgets

The expectation for increased car sales and property values provided the impetus to increase the estimate of property tax and sales tax revenues. Another revenue source that is projected to increase due to economic factors is the Village's investment income. Investment income has been increased in every fund as the anticipated increase in interest rates is expected to have a positive impact on the Village's Investment Income. Most other forecasted increases in the revenue estimates for 2005 and 2006 were not based on economic factors, but instead were based on factors specifically affecting individual revenue sources.

In terms of expenditures, the projected increases in fringe benefits, energy, and construction are expected to have a significant impact on the Village's budgeted expenditures. Increases in fringe benefits in particular affect all of the Funds that provide direct services (*i.e., the General, Water and Sewer, Recycling and Refuse, and Motor Vehicle Parking System*) as well as the Internal Service Funds (*Information Systems and Central Garage*). The expected increase in energy costs also impacts budgets in the General Fund, Water and Sewer Fund, and Central Garage Fund. The increase in construction costs will impact the Capital Improvement Fund, TIF Fund, and Water and Sewer Fund as they engage in capital improvements.